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AUDITOR'S REPORTS



UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
 Washington, D.C. 20230

INSPECTOR GENERAL'S REPORT ON FINANCIAL STATEMENTS

The Honorable Donald L. Evans
 Secretary of Commerce
 Washington, D.C.

We have audited the accompanying Consolidated Balance Sheet of the U.S. Department of Commerce as of September 30, 2000, the related Consolidating Statements of Net Cost and Changes in Net Position, and the Combined Statements of Budgetary Resources and Financing (all of the Department of Commerce's financial statements are hereinafter collectively referred to as "consolidated financial statements") for the year then ended. The consolidated financial statements are the responsibility of Department of Commerce's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.¹

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and Bulletin 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Commerce as of September 30, 2000, and its net cost, changes in net position, budgetary resources, and reconciliation of net cost to budgetary obligations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

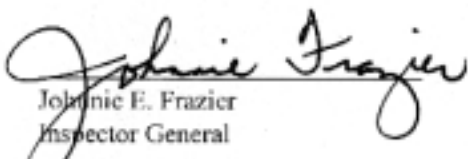
Our audit was conducted for the purpose of forming an opinion on the Department's consolidated financial statements. The information in the Management Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information is not a required part of the financial statements but is supplementary information required by OMB Bulletin 97-01,

¹ This is a reproduction of the text of the *Inspector General's Report on Financial Statements* from the "Department of Commerce Fiscal Year 2000 Consolidated Financial Statements," Audit Report No. 12849-1-0001 February 2001, which can be obtained by contacting the Office of Inspector General Publications Unit via e-mail at oirreports@oig.doc.gov or by phone at (202) 482-1243.

Form and Content of Agency Financial Statements, as amended. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

In accordance with Government Auditing Standards, we have issued separate reports dated February 23, 2001, on our consideration of the Department's internal control over financial reporting and its compliance with certain provisions of laws and regulations. These reports are an integral part of audits performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the management of the Department of Commerce, OMB, other federal agencies, and the Congress and is not intended to be used and should not be used by anyone other than these specified parties.


Johnnie E. Frazier
Inspector General
February 23, 2001



UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
 Washington, D.C. 20230

INSPECTOR GENERAL'S REPORT ON INTERNAL CONTROL

The Honorable Donald L. Evans
 Secretary of Commerce
 Washington, D.C.

We have audited the accompanying financial statements of the U.S. Department of Commerce as of and for the year ended September 30, 2000, and have issued our report thereon dated February 23, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*.²

In planning and performing our audit, we considered the Department's internal controls over financial reporting by first obtaining a thorough understanding of the agency's internal controls. We then determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives in OMB Bulletin 01-02. We did not test all internal controls relevant to operating objectives as broadly defined in the Federal Managers' Financial Integrity Act of 1982 (FFMIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or

² This is a synopsis of the text of the *Inspector General's Report on Internal Control* from the "Department of Commerce Fiscal Year 2000 Consolidated Financial Statements," Audit Report No. 12849-1-0001 February 2001. The complete report can be obtained by contacting the Office of Inspector General Publications Unit via e-mail at oirreports@oig.doc.gov or by phone at (202) 482-1243.

noncompliance may nevertheless occur and not be detected. However, we noted certain matters discussed in the following paragraphs involving the internal control and its operation that we consider to be reportable conditions. We deem three of the four reportable conditions to be material weaknesses.

Three of the reportable conditions are an aggregation of reportable conditions identified in the Department's individual *Reports on Internal Control*, but not all are applicable to every reporting entity. We provide recommendations to the Department addressing the three material weaknesses and the reportable condition. Additionally, specific recommendations related to the component on reporting-entity reconciliations are addressed in individual reporting-entities' *Reports on Internal Control or Management Letters*. We do not provide further recommendations for that component of the reportable condition. However, the Department and its reporting entities should ensure that appropriate controls are put in place to address the issues that follow.

MATERIAL WEAKNESSES

Financial Management Systems Need Further Improvement (Repeat Condition)

Integrated Financial Management Systems

The Department has not fully complied with OMB Circular A-127, *Financial Management Systems*, which requires each agency to establish and maintain a single, integrated financial management system. The Department relies on manual procedures, using reporting entity level financial statements for producing the Department's consolidated financial statements. The Department has reported in its fiscal year 2000 accountability report FMFIA section that many of its financial systems are seriously outdated and fragmented; unable to provide timely, complete, and reliable financial information; inadequately controlled; and costly and difficult to maintain. The Department reports it will continue to be exposed to the risks associated with operating multiple, outdated accounting systems, as these systems have not been planned for, managed together, operated in an integrated fashion, or linked electronically. As discussed in the next section, "Financial Management Systems," the Department is striving to replace the existing outdated systems by early fiscal year 2005. Replacement of these systems is a positive step toward complying with Circular A-127, but the Department also needs to be able to currently transfer and analyze financial information from its reporting entities.

During fiscal year 1999, the Department began an initiative to develop a financial database, officially referred to as the Corporate Database, that will be used to integrate financial data from all reporting entities and permit the preparation of consolidated financial statements and reports. During the year, the Department completed the development of functional requirements, basic programming, and user instructions. During fiscal year 2000, the Department developed a website for the Corporate Database, provided access to reporting entity users, and had some reporting entities pilot-test the database with fiscal year 1999 data. By December 2001, the Department expects the Corporate Database to produce the fiscal year 2001 consolidated financial statements.

Successful implementation of this database, in conjunction with implementing an integrated financial management system, should bring the Department into compliance with Circular A-127.

Financial Management Systems

As reported in previous years, the Department's legacy financial management systems continue to be ineffective tools for preparing and reporting the financial results of the Department and its reporting entities. In the Department's fiscal year 2000 accountability report, the Secretary reported that, taken as a whole, the Department's financial systems were not compliant with the General Accounting Office's principles and standards, nor with the requirements of the Chief Financial Officers Act, the Joint Financial Management Improvement Program, or OMB.

For fiscal year 2000, the Department's most significant accomplishments were the following:

- NOAA used the Core Financial System (CFS)³ of the Commerce Administrative Management System (CAMS) to process local travel and small purchase reimbursements, and completed its implementation of the purchase card module in its Administrative Support Centers. The Department projects that CAMS will be fully operational at a NOAA line office in October 2001. By October 2002, NOAA's phased CFS CAMS implementation is expected to be completed.⁴
- NIST completed its planning for deploying CAMS. The Office of Financial Management (OFM) developed interfaces to NIST's and Office of Computer Service's (OCS) legacy systems in preparation for conversion to CAMS beginning in October 2000. Also, during that month, NIST implemented CFS CAMS in the Office of the Secretary. OFM also assigned a full-time person onsite at NIST to work with the implementation team for the Office of the Secretary, Office of Inspector General, and OCS.
- OFM initiated an effort with the Office of Acquisition Management to design an interface between the Department's new procurement system--the Commerce Standard Acquisition and Reporting System--and CFS. Also, OFM's CAMS Support Center delivered to some reporting entities a new CAMS capability that allows recording of estimated accruals for end-of-year accounting activity. The Support Center assigned personnel to the Census Bureau to support year-end closing and fiscal year 2000 audit activities.
- Through support from OFM's CAMS Support Center, EDA converted its grant accounting to the CFS CAMS.

³ The CFS is interfaced with administrative systems for small purchases, bankcards, and time reporting/labor cost distribution, and is collectively called Core CAMS.

⁴ NOAA also provides accounting services to BXA. The expected date for BXA to implement CFS CAMS is September 2001.

- ITA entered into a cross-servicing agreement with the Department of the Interior in fiscal year 1999 to perform its full-scope accounting functions, which became effective at the beginning of fiscal year 2000.

By early fiscal year 2005, the Department plans to have all of its reporting entities operating under compliant financial management systems that are integrated with a financial corporate database. Given the challenges that it still faces with controlling cost and adhering to schedule, the Department needs to closely monitor efforts to ensure that it is brought into full compliance.

General Controls

The audits of the Department's individual fiscal year 2000 financial statements included reviews of the general controls over the major financial management systems at the seven locations that provide data processing support. Independent public accounting firms used the General Accounting Office's *Federal Information System Controls Audit Manual* (FISCAM) as a guide in performing these reviews. The reviews disclosed weaknesses in all six FISCAM general control areas.

- Five locations need to make improvements in entitywide security program planning and management.
- All seven locations need to strengthen access controls for both operating systems and the financial management systems.
- Two locations need to improve application software development and change control.
- Two locations need to make system software improvements.
- Three locations need to better segregate duties and responsibilities.
- Four locations need to prepare, update, or improve contingency plans and/or disaster recovery plans.

In response to our fiscal year 1999 recommendation, the Chief Information Officer (CIO) began monitoring activity of the respective reporting entities to resolve the identified general controls recommendations. The CIO also began development of a secure, stand-alone database that will track and report on the outstanding recommendations, as well as allow appropriate, restricted reporting entity access for updating purposes.

The aggregation of these weaknesses is considered to be a reportable condition at four locations. The detailed results and recommendations of these reviews are contained in restricted audit reports that were issued by the OIG to the organizational components.

Recommendations

We recommend that the Chief Financial Officer and Assistant Secretary for Administration:

1. Ensure that actions to develop and implement the Corporate Database to remedy the lack of an integrated financial system are closely monitored and that delays in schedule are promptly addressed and documented.
2. Continue to monitor the actions, cost, and schedule for full, successful implementation of the Commerce Administrative Management System by October 2004.

We also recommend that the CIO:

3. Continue development and implementation of the database for tracking and reporting on corrective actions planned and taken to address the outstanding general controls recommendations.
4. Review, monitor, and provide guidance to the reporting entities on their corrective actions planned and taken in response to the current and prior fiscal years' OIG-issued audit reports on general controls.

Reporting Entities' Financial Management and Reporting Needs Further Improvement (Repeat Condition)

For fiscal year 2000, all nine audited reporting entities received unqualified opinions on their financial statements. Moreover, as a result of actions taken by certain reporting entities, reportable conditions associated with controls surrounding property, accounts payable, and accrued grant expenses have been addressed and are no longer reported at the consolidated level. The number of material weaknesses and reportable conditions at the reporting entity level decreased from fiscal year 1999.

Although certain previously identified findings have been corrected, identified deficiencies in financial management and reporting at certain reporting entities pose a threat to the Department's continued ability to produce reliable and timely financial statements. Specifically, three of the Department's reporting entities were identified as having material weaknesses in financial management and reporting. For the year ended September 30, 2000, these reporting entities represent more than half, or \$6.2 billion, of the Department's \$12.1 billion in total budgetary resources. For the year ended September 30, 1999, the only other year for which audited

information is available, these three reporting entities represented around 25 percent of the Department's total budgetary resources. While the Department identified that these three reporting entities were in need of assistance in the preparation of their financial statements and provided assistance accordingly, these reporting entities encountered significant problems in preparing reliable and timely financial statements.

Further improvements in financial management are necessary at the reporting entity level to correct the material weaknesses and reportable conditions identified in fiscal year 2000. Consequently, it is essential that the reporting entities remain focused on sound financial management in order to continue to achieve reliable, timely, meaningful, and useful reporting.

Financial Reporting Process

Although the Department met the March 1 deadline for submission of its audited financial statements, the preparation and audit of these statements was hampered by the difficulties and/or delays of reporting entities in producing complete and accurate financial statements. Reporting entity draft financial statements often included technical and clerical errors, inconsistencies in the form and content of the financial statements/notes, and inconsistencies between the statements and the note disclosures. Identified reporting entity level deficiencies included:

- One reporting entity does not provide an in-depth supervisory review of the financial statements throughout the year-end reporting process to detect potential errors and omissions, and to ensure that the financial statements were prepared in accordance with OMB Bulletin 97-01 form and content requirements. As a result of the inability of the reporting entity's financial management system's to produce necessary reports (e.g., aging reports for deferred revenue and accounts receivable) in a routine and timely manner, financial statements were manually compiled for fiscal year 2000. The manual compilation of data is an impediment to financial analysis and review of summary level data and impedes the production of interim financial statements.
- Another reporting entity does not have properly documented policies, procedures, and timelines outlining the steps necessary to properly close out the general ledger, record year-end accruals, post other adjustments, and prepare the financial statements. Existing procedures were not used and had not been updated to reflect timeline requirements for various reports, address changes in the process as a result of implementing a new accounting system, or incorporate changes in financial reporting requirements established by OMB and the Department. Financial reporting had not been identified as a material weakness at this reporting entity in the prior year.
- A third reporting entity needs to improve its processes to ensure that financial statements are prepared from complete and accurate information on a timely basis. Instances were identified in which transactions were not recorded accurately, approved or recorded

timely, and known activity was not initially included in the statements. These problems resulted from a lack of review and verification procedures.

For the two reporting entities that had financial management and reporting identified as a material weakness in fiscal year 1999, some improvements were identified.

Financial Management Issues

In addition to the deficiencies noted above in the financial reporting process, a material weakness at one reporting entity and reportable conditions at three reporting entities need to be corrected. These relate to a wide range of internal control weaknesses attributable to ineffective financial management controls at the reporting-entity level.

Statement of Net Cost Preparation. One reporting entity has a material weakness because of inadequate written policies and procedures to ensure that the net cost allocations were accurate, as they relate to program goals. Also, there were no documented verification procedures as to how allocation decisions were made. Failure to properly allocate expenses and earned revenues risks non-compliance with OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, and SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, and increases the risk of a material misstatement.

Financial System Implementation. One reporting entity has a reportable condition due to difficulties encountered in its conversion from its legacy system to its new financial management system. Delays attributable to setbacks in system implementation resulted in delays in the year-end closing process and subsequent preparation and submission of the financial statements and footnotes. Also, the reporting entity was unable to produce certain subsidiary detail supporting specific account balances. The conversion delayed the recording of fiscal year transactions until late in the fiscal year.

Monitoring the Budget. One reporting entity's financial management system does not prevent overobligations at the obligation line-item level, and line-item reporting of obligations is not reliable. Specifically, the system does not have automated procedures or controls within it to prevent an over-obligation. Instead, the entity uses a manual process, placing reliance on its budget officers and program managers to monitor and control the obligational activity against the operating plan.

Undelivered Orders. One of the smaller reporting entities has a reportable condition relating to its untimely processing of undelivered order activity. In some instances, de-obligations did not occur due to posting errors, and obligations were incorrectly accrued as payables. Also, obligations were overstated because some obligations related to completed activity.

Recommendation

We recommend that the Chief Financial Officer and Assistant Secretary for Administration provide continued oversight and assistance to the reporting entities identified as having material weaknesses in financial management and reporting. This should include the Department's oversight in the reporting entities' preparation of audit action plans to address the reported deficiencies.

Prompt Recognition and Recording of Appropriations

On August 17, 1999, legislation was signed creating the Emergency Steel Loan Guarantee and the Emergency Oil and Gas Guaranteed Loan Program Act of 1999. Subsequently, on September 30, 1999, Apportionment and Reapportionment Schedules, "SF 132," were issued for both programs. Further, on October 18, 1999, Treasury warrants with an accounting date of August 17, 1999, were issued by the Department of Treasury to the Department for the Emergency Steel Loan Guarantee Program (\$145 million) and the Emergency Oil and Gas Guaranteed Loan Program (\$125 million). On November 9, 1999, Reports on Budget Execution, "SF 133," were prepared for the programs.

However, the \$270 million in appropriations for the two programs was not recorded in the general ledger until March 22, 2000. As a result, the Department excluded the appropriations from the fiscal year 1999 financial statements. Also, there were about six months during fiscal year 2000 in which the appropriations for these programs were not recorded in any general ledger within the Department. We were told that this failure to record the appropriations for the two programs occurred due to confusion between Department officials on several issues, such as which fiscal year the program was established and where the programs should be recorded. As a result, a prior period adjustment of \$270 million is incorporated in the Department's Consolidating Statement of Changes in Net Position for the year ended September 30, 2000, to properly recognize the budget authority for the two programs.

Recommendation

We recommend that the Chief Financial Officer and Assistant Secretary for Administration develop written procedures with adequate internal controls to ensure that appropriations are promptly recognized when enacted into law, and promptly recorded in the appropriate accounting periods.

Deputy CFO and Director For Financial Management Response

While the Deputy CFO generally concurred with the audit finding, he believes that it does not warrant a stand-alone material weakness, but should be included in the material weakness relating to financial management and reporting. He noted that while the accounts were not immediately

recorded to the system, administrative costs were tracked manually, appropriation expenses passed through the correct appropriation in Treasury, and all necessary budget reports were submitted to the Office of Management and Budget reflecting the activity. He also cited actions taken by the Department that he believes will alleviate similar issues in the future.

OIG Comments

We continue to believe that the materiality of the appropriations (\$270 million) and length of omission (almost 6 months) of recognizing and recording of the appropriations in the general ledger is a stand-alone material weakness. Moreover, the procedures identified as actions taken to alleviate similar issues will not effectively do so.

REPORTABLE CONDITION

Reconciliations Should Be Improved (Repeat Condition)

The Department and its reporting entities need to strengthen their procedures and processes related to reconciliations. Accurate, timely, and comprehensive reconciliation of account balances with subsidiary records or other controlling documentation is a basic internal control. Without this key control, resources are subject to mismanagement, waste, and fraud, thereby increasing the risk that financial statements may be materially misstated.

Reporting Entity Reconciliation of Account Balances

Consistent with the prior year, internal control deficiencies continue to be identified in some reporting entities' reconciliation processes. Reconciliations were identified as a material weaknesses at one reporting entity and as a component of a material weakness at another reporting entity. Either the entities do not perform timely reconciliations or the reconciliations contain numerous errors, and unreconciled differences are not investigated and properly adjusted.

At most reporting entities, the reconciliation process has improved significantly. In fiscal year 1999, the auditors identified weaknesses in reconciliations at four entities, whereas in fiscal year 2000, the auditors identified such weaknesses at two reporting entities.

For fiscal year 2000, these deficiencies affected the financial statement line items are as follows:

- One reporting entity experienced difficulties in reconciling Fund Balance with Treasury in a timely manner. The entity did not properly perform timely reconciliations, and unreconciled differences were not investigated and properly adjusted. Posting errors were not researched and resolved in a timely manner.

- The same reporting entity did not reconcile two financial statement account balances (deferred revenue and accounts receivable) in a timely manner. They were not properly reconciled throughout the fiscal year and at year-end, and not adequately supported or properly reviewed by management. Accountants performing these reconciliation functions were unfamiliar with the nature and details of the accounts.
- At another reporting entity, reconciliations for certain payroll and property accounts were not performed in a timely manner and some contained significant errors, indicating insufficient review and verification. Adjustments were required to accurately state the account balances.

Intragovernmental Transactions

As of September 30, 2000, intragovernmental balances accounted for about 25 percent, or \$734 million, of the Department's total liabilities of \$2.9 billion. Accurate, timely, and comprehensive reconciliation of account balances with trading partners (i.e., entities that receive or provide goods or services to the Department in its efforts to satisfy its mission and objectives) is a basic internal control to verify the accuracy of records. Reconciliation of account balances is a process that will enable the Department to establish agreement between the records of its trading partners and its own. Beginning with fiscal year 2000, reconciliations with agency trading partners is more detailed and formalized than in previous years.

For fiscal year 2000, the Department did not complete reconciliations of intragovernmental balances with its trading partners, both federal and non-federal agencies providing or receiving goods or services that assisted the Department in carrying out its mission. On November 13, 2000, the Department received detailed listings of intragovernmental transactions from all but two reporting entities. The Department chose to submit summary balances to applicable trading partners on November 15 and 16, 2000, with the hope that this would satisfy applicable guidelines. Detail listings of all intragovernmental transactions were not sent to the Department's trading partners until January 8, 2001. As such, the Department did not send confirmation requests to its trading partners in a timely manner. Also, the Department did not respond to two reconciliation inquiries made by its trading partners or verify the responses received from its trading partners. While we recognize that the Department did attempt to reconcile with the four fiduciary trading partners required in OMB Bulletin 97-01, it only completed the reconciliation with the Bureau of Public Debt.

Recommendation

We recommend that the Chief Financial Officer and Assistant Secretary for Administration ensure timely reconciliations of the Departmental's intragovernmental balances with other federal and non-federal agencies.

Deputy CFO and Director For Financial Management Response

In his response to the draft report, the Deputy CFO stated that pertinent information was excluded from the finding. The Deputy CFO noted that they had reconciled (1) with the four trading partners required by OMB Bulletin 97-01 and (2) its Treasury Fund Balance as of September 30, 2000, its largest intragovernmental asset. Since the Department had been informed that other federal agencies were not reconciling with their partners in the current year, the Office of Financial Management chose to focus its resources on assisting bureaus in maintaining their unqualified opinions and limited its efforts in this area.

OIG Comments

We found that the Department had attempted to reconcile intragovernmental transactions with the four trading partners required by OMB Bulletin 97-01. However, at the conclusion of our audit, only one of the reconciliations had been completed.

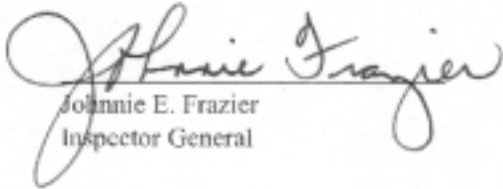
In addition, we considered the Department's internal controls over Required Supplementary Stewardship Information by obtaining an understanding of the agency's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 01-02 and not to provide assurance on these internal controls. Accordingly, we do not provide an opinion on such controls.

Finally, with respect to internal control related to performance measures reported in the Accountability Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal controls over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

The information in the Management Discussion and Analysis and Required Supplementary Information sections is not a required part of the financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board or OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended.

We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of this information. However, we did not audit the information in the Management Discussion and Analysis and Required Supplementary Information sections, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of the Department of Commerce, OMB, other federal agencies, and the Congress and is not intended to be and should not be used by anyone other than these specified parties.


Joannie E. Frazier
Inspector General

February 23, 2001

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UNITED STATES DEPARTMENT OF COMMERCE

The Inspector General

Washington, D.C. 20230

INSPECTOR GENERAL'S REPORT ON COMPLIANCE WITH
LAWS AND REGULATIONS

The Honorable Donald L. Evans
Secretary of Commerce
Washington, D.C.

We have audited the accompanying financial statements of the U.S. Department of Commerce as of and for the year ended September 30, 2000, and have issued our report thereon dated February 23, 2001.⁵

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the Department is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the Department's financial statements are free of misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance with these provisions, and we did not test compliance with all laws and regulations applicable to the Department.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin 01-02, as described below:

- The Department did not submit its Strategic Plan for fiscal year 2000 through fiscal year 2005 to the Congress as required by the Government Performance and Results Act of 1993 and its implementation guidance OMB Circular A-11, Part 2. The circular required

⁵ This is a reproduction of the *Inspector General's Report on Compliance with Laws and Regulations* from the "Department of Commerce Fiscal Year 2000 Consolidated Financial Statements," Audit Report No. 12849-1-0001 February 2001, which can be obtained by contacting the Office of Inspector General Publications Unit via e-mail at oirreports@oig.doc.gov or by phone at (202) 482-1243.

that strategic plans that were submitted in September 1997 were to be revised and submitted no later than September 29, 2000. In a July 19, 2000, letter to the Acting Secretary, the Chairman of the House Committee on Science, expressed concern that, "By not submitting a draft strategic plan for 2000, the Department has failed to abide by the law and consult with Congress on this important part of the Results Act... Due to the timing, I ask that the Department immediately provide a draft to the Congress and not submit its final plan until October 30, 2000 instead of September 30." The Department provided the plan to Congress on January 18, 2001.

- The National Oceanic and Atmospheric Administration did not fully fund its capital leases. In fiscal year 1999, and again on September 8, 2000, NOAA's Chief Financial Officer issued a memo instructing that, "All future leases exceeding \$200,000 have sufficient budgetary resources at the inception of the lease to cover the present value of the lease payments discounted using Treasury interest rates." Although the memo addressed leases with inception dates after fiscal year 1999, capital leases after October 1, 1999, were not fully funded. OMB Circular A-11, *Preparation and Submission of Budget Estimates*, states that agencies must have sufficient budgetary resources up front to cover the present value of the lease payments for capital asset leases and lease purchases. When the Congress enacts legislation that enables an agency to enter into a capital lease arrangement or lease purchase for a specific project without further appropriations action, it is assumed that the Congress has provided the budget authority required for the transaction up front. When an agency enters into a capital lease or lease-purchase arrangement under general authorities available to the agency, it must do so within the limits of the budgetary resources otherwise available to it and the constraints of the score-keeping requirements; no additional resources are provided.
- The International Trade Administration does not have adequate policies to ensure compliance with OMB Circular A-25, *User Charges*. Circular A-25 requires federal agencies to recover the full cost of providing goods or services. As a result, there is a significant risk that ITA trade events are not self-sustaining, and ITA and federal resources are not efficiently allocated to ensure that revenues meet or exceed costs. ITA is currently seeking a waiver from OMB with regard to Circular A-25.

The results of our tests of compliance with the other laws and regulations described in the second paragraph of this report, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin 01-02.

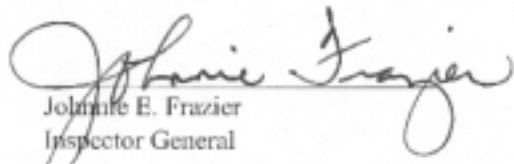
Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with federal financial management systems requirements, federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

The results of our tests disclosed instances, described below, where the Department's financial systems did not substantially comply with one of the requirements discussed in the preceding paragraph--federal financial management systems requirements.

- As identified in the Federal Managers' Financial Integrity Act section of the fiscal year 2000 accountability report, the Department is not in compliance with central agency requirements for a single, integrated financial system. The Department reported that, taken as a whole, its financial systems are not compliant with General Accounting Office's principles and standards, nor with the requirements of the Chief Financial Officers Act, the Joint Financial Management Improvement Program, or OMB. Its existing systems are not sufficiently integrated, lack security controls, are improperly documented, and do not provide reliable and timely information.
- Three financial management systems do not substantially comply with the federal financial management systems requirements in fiscal year 2000. The first involves the primary system for NOAA, which is also used to process accounting transactions for BXA. NOAA's system does not support the preparation of timely, accurate financial statements through an integrated system and requires manual procedures for accounting and budgetary transactions. The second is the primary accounting system used for NIST, which is also used to process accounting transactions for NTIA and TA. Weaknesses continue in general controls procedures for the system. The last is NIST's Financial Accounting and Reporting System, which is used to process accounting transactions and provide reporting services for EDA (salaries and expenses), ESA/BEA, MBDA, and General Administration's Working Capital Fund and Salaries and Expenses Fund, and the Emergency Steel Loan Guarantee and the Emergency Oil and Gas Guaranteed Loan Programs. The system continues to have weaknesses and does not maintain appropriate commonality of data elements and transaction processing sufficient to ensure timely, accurate, and effective financial reporting.

The Chief Financial Officer and Assistant Secretary for Administration and Deputy CFO have been assigned the responsibility of ensuring the integration of financial and information systems. We discuss the actions taken by the Department to strengthen its financial management systems in our *Report on Internal Control* under the material weakness entitled, "Financial Management Systems Need Further Improvement." (See pages 5-11.) By early fiscal year 2005, the Department plans to have all of its reporting entities operating under compliant financial management systems. These systems will be integrated with a financial Corporate Database that will be used to prepare the Department's consolidated financial statements and reports.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion. This report is intended solely for the information and use of management of the Department of Commerce, OMB, other federal agencies and the Congress and is not intended to be and should not be used by anyone other than these specified parties.


Johnnie E. Frazier
Inspector General
February 23, 2001